

Luis Enrique Torres Asomoza
Von Wobeser y Sierra, México City
ltorres@vwys.com.mx

Recent developments in international taxation: Mexico

As Mexico advances through 2025, its international tax framework continues to evolve in response to internal and external pressures. The country finds itself at the intersection of aggressive tax administration policies and profound institutional challenges, triggered by upcoming federal elections where judges will be elected to the judiciary instead of appointed via meritocracy. Also, there are intensified geopolitical dynamics, particularly with the United States.

These concurrent developments shape an increasingly sophisticated and often unpredictable tax environment. International investors, multinational enterprises, and domestic taxpayers alike must carefully assess risks, regulatory burdens and compliance expectations when structuring operations in or through Mexico.

The purpose of this report is to explore and assess the current tax landscape, focusing on key legal, political and economic factors affecting international taxation.

Aggressive tax enforcement by SAT

The Mexican Tax Administration Service (Servicio de Administración Tributaria or SAT) has significantly redefined its approach toward tax enforcement over the past five years. Instead of relying on legislative reform to increase tax revenue, the SAT has implemented a strategy of intensified audits and strict enforcement of existing tax laws. This trend has continued under the current federal administration, which has prioritised fiscal discipline and public investment without resorting to raising tax rates.

One of the most prominent features of this strategy is the increased focus on validating the economic substance of transactions. The doctrine of *materialidad* is now central to audit procedures. Under this principle, even transactions that are valid from a legal and formal standpoint may be disregarded by the SAT if they are not supported by clear economic rationale and documentary evidence. In practice, this has meant that:

- deductibility of expenses is routinely denied based on alleged lack of evidence that the service or good was actually provided, often irrespective of formal invoices and payments;
- intercompany transactions are heavily scrutinised, particularly when involving foreign related parties, and transfer pricing documentation is no longer sufficient if not complemented by transaction-level proof of execution and benefit; and
- service providers are routinely requested to demonstrate not only their operational capacity but also the existence of qualified personnel, infrastructure and risk-bearing elements.

Additionally, the SAT has:

- broadened its digital audit capabilities through advanced analytics, cross-referencing of electronic invoices (CFDIs), bank account monitoring, and access to third-party databases;
- established real-time alerts for discrepancies in VAT credit chains, which has led to temporary suspensions of tax certificates and immediate consequences for taxpayers' operations; and
- enforced strict penalties for non-compliance, including denial of refunds, temporary inactivation of taxpayer's ability to issue CFDI (invoices), and even initiating criminal investigations for tax fraud under Article 113-Bis of the Federal Tax Code.

This environment has led to greater litigation and a rising number of conclusive agreements (*acuerdos conclusivos*) before the Tax Ombudsman (PRODECON), as businesses seek to resolve disputes prior to formal litigation.

2025 judicial elections

The June 2025 elections are widely considered a turning point for Mexico's political and legal institutions. The upcoming vote will determine the future of the federal judicial system. Among the proposals under consideration are:

- direct election of Supreme Court justices and federal judges;
- creation of popular councils to oversee judicial conduct and case management; and
- establishment of fixed-term limits for judges, departing from the traditional model of judicial permanence.

These initiatives have sparked intense debate. Critics argue that such reforms could jeopardise the independence of the judiciary and allow for political interference in tax and constitutional matters. Proponents claim they will increase transparency and accountability.

In the tax context, this uncertainty has produced the following effects:

- an increase in voluntary settlements with the SAT to avoid litigation risk;
- greater reliance on administrative remedies such as early mediation procedures; and
- strategic withholding of legal actions until post-election developments clarify the future of the judiciary.

Furthermore, precedents issued by the Federal Court of Administrative Justice (TFJA) and the Mexican Supreme Court of Justice had shown inconsistent interpretations of key concepts, including the definition of permanent establishment (PE), the deductibility of certain tax losses, and the application of double tax treaties. These inconsistencies have made legal risk assessments more difficult for international taxpayers.

As mentioned, PRODECON remains an important institution for taxpayer defence, but it has suffered from budgetary reductions and limited enforcement capacity, particularly when dealing with structural disputes involving audit criteria or broader interpretations of tax norms.

Impact of US tariffs and international trade tensions

The reintroduction of trade barriers by President Donald Trump, including selective tariffs on Mexican exports, has reignited concerns about the vulnerability of Mexico's economy to US policy shifts. The new tariffs have affected agricultural products, automotive parts and manufactured goods, all of which represent core components of Mexico's export economy. The fiscal consequences of these tariffs include:

- erosion of competitiveness in export-driven industries, leading companies to request temporary tax relief measures such as accelerated depreciation of affected assets and the establishment of special economic zones (*zonas económicas especiales*);
- increased demand for simplification of VAT refund procedures for exporters facing liquidity constraints due to delayed collections and rising production costs; and
- a chilling effect on foreign direct investment, particularly from US companies reconsidering Mexico as a nearshoring destination due to unstable trade conditions and lack of tax certainty.

In addition, several companies have begun re-evaluating their supply chains, prompting complex restructurings that involve:

- changes in tax residency and sourcing contracts;
- reconfiguration of intra-group pricing and royalty structures; and
- adoption of origin certification protocols in line with the United States-Mexico-Canada Agreement (USMCA) to mitigate indirect tariff costs.

These strategic moves have direct tax implications, often triggering questions related to the location of value creation, effective management and beneficial ownership, which are under SAT scrutiny.

These developments underscore the need for Mexico to proactively adjust its tax incentives and regulatory frameworks to maintain its competitive edge in global trade and mitigate the risks associated with protectionist policies abroad.

Outlook and recommendations

The next 12 to 24 months will be critical in shaping Mexico's fiscal future. Both domestic and international observers will be monitoring the outcome of the June elections and the policy decisions of the incoming administration. In the interim, several measures could help stabilise the tax environment and rebuild investor trust:

1. **Legal certainty:** The SAT must issue binding guidance (*criterios normativos*) that limits the arbitrary application of *materialidad* and defines documentary expectations. Certainty in tax audits will encourage investment and compliance.
2. **Institutional strengthening:** Legislative reforms should avoid politicisation of the judiciary and protect the ability of tax courts to resolve disputes impartially and in accordance with international standards.
3. **Export sector safeguards:** Sector-specific tax relief measures should be implemented to shield industries most exposed to US tariffs. The government may

also consider bilateral negotiations to reduce trade friction and improve tax coordination.

- 4. Modernisation and simplicity:** Streamlining compliance procedures, reduction of redundant documentation requirements, and wider implementation of risk-based audit models would reduce administrative burdens and promote voluntary compliance.

Ultimately, Mexico's ability to foster a fair, modern and stable international tax system will depend on political will, institutional independence and the establishment of genuine dialogue between tax authorities and taxpayers.